

# TELRIC REFORM

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# TELRIC IS FUNDAMENTALLY FLAWED

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- Current TELRIC cost models are based on inconsistent assumptions
  - (1) A perfectly competitive market for some inputs:
    - network technology and architecture costs based on instantaneous revaluation of assets and reconfiguration of network architecture
  - (2) A market served by a single ubiquitous carrier for other inputs
    - scale economies
    - cost of capital
    - depreciation

# TELRIC Is Fundamentally Flawed (Cont'd)

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- TELRIC encourages conjecture and speculation
  - Few practical limits on “most efficient technology currently available” or “least cost network configuration.”
  - Necessitates inherently unprovable and unverifiable input proposals based on ponderings of hired consultants.
    - fill factors
    - structure sharing

## “ . . . TELRIC HAS THE ANALYTICAL CONSISTENCY OF WATERY PORRIDGE.

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- . . . There is simply no place, or way for a regulatory commission to evaluate the respective merits of the hypothetical forward looking models. Faced with dramatically divergent assumptions in cost models, which yield dramatically differing pricing outputs, there is simply no principled manner for a regulator to determine the ‘right’ TELRIC rate. . . . [V]erifiability is impossible because the rates are premised on a series of assumptions . . . Assumptions about the future that cannot be tested or falsified. The perfectly adequate rebuttal to any TELRIC cost model is ‘says you.’”

--Raymond Grifford, Former Chairman, Col. PUC  
*Progress & Freedom Foundation Comments*

# How to Reform TELRIC

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- The Commission should adopt rules requiring that cost models must:
  - take as given the configuration, technology mix, utilization levels, and other attributes of the ILEC's existing network;
  - be based on a view of the ILEC's network at the midpoint of a three-year planning period of technological evolution actually documented in the ILEC's engineering plans for that time period; and
  - exclude any obsolete facilities whose replacement costs would be anomalously high because they are no longer available on the market.
- The Commission also should adopt rules governing the determination of key cost model inputs (*e.g.*, cost of capital, depreciation, labor rates, fill factors, structure sharing).

# Benefits of SBC's Proposed Actual Network Cost Standard

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- ❑ Allows the construction and use of models to derive the costs of a real-world efficient network based on representative data that is objectively verifiable.
- ❑ SBC's "actual network" cost approach is forward looking. It is not an embedded cost methodology.
  - prices at current, not historic, cost
  - reflects real-world (and objectively verifiable) evolution of the network
  - omits obsolete technology